



# MINUTES

## Legislative Property Tax Study Committee

December 5, 2007

### MEMBERS PRESENT:

Senator Joe Bolkcom, Co-chairperson  
Senator Staci Appel  
Senator Roger Stewart  
Senator Ron Wieck  
Senator Mark Zieman

Representative Phil Wise, Co-chairperson  
Representative Tyler Olson  
Representative Doug Struyk  
Representative Roger Wendt

#### Public Members (Nonvoting):

Ms. Margaret Buckton  
Mr. Rick Dickinson  
Ms. Christine Hensley  
Mr. Tim Johnson  
Mr. Edward T. Wallace  
Mr. Terry Wegener  
Mr. Tom Zucker

#### Governor's Appointees (Nonvoting):

Mr. Dale Hyman, Department of Revenue  
Mr. Charles Krogmeier, Department of  
Management  
Mr. Vince Lintz, Department of Economic  
Development

## MEETING IN BRIEF

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Organizational staffing provided  
by: Susan Crowley, Senior Legal  
Counsel,  
(515) 281-3430

Minutes prepared by: Mike  
Duster, Legal Counsel,  
(515) 281-4800

- I. Procedural Business
- II. Sales Tax Exemptions and Taxation of Services
- III. Assessment of Agricultural and Commercial Property
- IV. Impact Fees
- V. Iowa State Association of Counties (ISAC) —  
Legislative Priorities and Recommendations
- VI. Association of Business and Industry (ABI)
- VII. Taxation of Telecommunications Industry
- VIII. Committee Discussion
- IX. Materials Filed With the Legislative Services Agency



## Legislative Property Tax Study Committee

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### I. Procedural Business

**Call to Order.** The third meeting of the Legislative Property Tax Study Committee was called to order at 10:05 a.m. on December 5, 2007, in the Supreme Court Chamber (Room 103) of the State Capitol Building.

**Approval of Minutes.** The minutes of the November 7, 2007, meeting, as previously distributed, were approved by voice vote.

**Adjournment.** Upon conclusion of the presentations and discussion by the Committee, the meeting was adjourned at 3:30 p.m.

### II. Sales Tax Exemptions and Taxation of Services

**Mr. David Casey, Administrator, Compliance Division, Department of Revenue.** Mr. Casey provided information relating to Iowa's current sales and use tax exemptions, including exemptions related to the sale of services, and the estimated cost, in lost revenue, of providing certain exemptions. Mr. Casey also provided an update on the forthcoming Tax Expenditure Study, which is due to be released by the department in 2008, and informed the Committee that there are plans to study the economic benefit of the rehabilitation tax credit and the research and development tax credit. Members of the Committee, at Senator Appel's suggestion, expressed support for establishment of a subcommittee to consider the Department of Revenue's report, particularly the sales and use tax portion, once it is issued.

Mr. Casey presented information to the Committee regarding a survey for the Federation of Tax Administrators. The survey breaks services down into categories and specifies how the service is taxed. The old classification system of "Standard Industry Class" (SIC) was presented along with the new North American Industry Class (NAIC) system. "Digital products" is a new category; however, Iowa does not tax those services. In all, Iowa taxes about 94 services. Some states, including South Dakota, impose a tax on professional services. The most widely taxed services include utilities, personal services, admissions/amusement services, and repair services.

Members of the Committee addressed the situation in which residential utilities are exempt from sales tax at the state level, while they remain taxable through a local option sales tax or a franchise fee. Additionally, Committee members asked for clarification on the applicability of excise taxes on "sleeping rooms" in addition to local hotel/motel taxes. In response to Committee questioning, Mr. Casey explained that continually updated data on certain sales and services tax exemptions is not feasible based on the amount of analysis required and the amount of time it takes to compile the state and federal data.

### III. Assessment of Agricultural and Commercial Property

**Mr. Dale Hyman, Administrator, Property Tax Division, Department of Revenue.** Mr. Hyman reviewed the results of a survey of local assessors regarding assessment of agricultural buildings and changes to assessments that have occurred subsequent to adoption of a 2005 administrative rule requiring that agricultural buildings be assessed at the same ratio of market value to



productivity value, expressed as a percentage, that is applied to agricultural land. Mr. Hyman stated that the primary concern of the Department of Revenue is uniformity of assessment among assessors.

Mr. Hyman stated that it is the Department of Revenue's recommendation that a five-year average of market value be used when computing the ratio of market value to productivity value, similar to the method currently used to calculate agricultural productivity. Without a change in agricultural property assessment methodology and with implementation of the 2005 rule, farm building assessments would decrease about 32 percent and would result in a somewhat higher assessment on agricultural land. Changes in assessments would vary significantly from county to county. The Department of Revenue is anticipating that the upward trend in agricultural assessment value based on the current formula will continue. The higher yields and prices for the 2006 and 2007 crops that will be included in the formula for the 2009 assessment year will produce higher productivity values. Ultimately, the results will be similar to the 2007 assessments, although the rollback will limit the taxable value growth to 4 percent plus new construction.

Members of the Committee expressed concern with reports that some assessors are using 30-year-old assessor manuals and how it demonstrates the low priority that assessors place on farm building assessments because it typically does not change the total agricultural value in the county. Members also stated that the lack of uniformity among such assessments will create an inequity to some rural taxpayers and the potential for inequity between livestock confinement operators and grain farmers.

**Mr. Tim Johnson, Research Specialist, Iowa Farm Bureau Federation.** Mr. Johnson outlined the current method of valuing agricultural property for purposes of property taxation. Agricultural property is valued based on a productivity formula which involves computation of five years of data on income (yield times acres times crop price plus certain government payments) and expenses, such as crop inputs, fertilizer costs, insurance, and taxes, capitalized at a statutory rate of 7 percent.

Mr. Johnson noted that the portion of aggregate value placed on agricultural buildings does not change the aggregate taxable value of agricultural property within a county. For illustrative purposes, Mr. Johnson provided fiscal information on the taxes paid on a 400-acre farm in Palo Alto County. Fiscal year 2007-2008 taxes on the land and buildings of such a farm will exceed \$13,000. Mr. Johnson also described a situation in which identical farm buildings were erected in different counties; however, one of the farm buildings received an assessment that was half the value of the identical building in the other county.

Members of the Committee questioned Mr. Johnson about Farm Bureau's preference for the productivity formula. Mr. Johnson indicated that Farm Bureau is comfortable with such a formula because farmers know that they will be paying more if their land's productivity increases. Members also conveyed the concerns being expressed by constituents relating to the percentage of market value subject to property taxation.

**Mr. William Greazel, Johnson County Assessor.**

**Agricultural Valuation Process.** Mr. Greazel testified on the problems with the productivity formula for assessing agricultural property, particularly livestock confinement feeding buildings.



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Mr. Greazel stated that after application of the agricultural factor to the replacement cost of a building and after subtracting the value of the pollution control exemption, if granted, livestock confinement buildings are assessed at 10 to 15 percent of replacement cost. Mr. Greazel recommended that a study of the true productivity of agricultural buildings, particularly confinement buildings and grain buildings, be initiated and utilized by Iowa State University. Mr. Greazel stated that this would result in a more equitable distribution of the costs for services between the livestock-intensive entities and the grain producers.

Members of the Committee noted that the rule promulgated by the Department of Revenue relating to assessment of agricultural buildings was reviewed by the Administrative Rules Review Committee and no action was taken, and, therefore, the rule is in force. Accordingly, a legislative solution would be needed to make any changes.

**Commercial Valuation Process.** Mr. Greazel stated that the income approach should be the preferred method when valuing commercial property with the understanding that all three approaches have their utility and, when possible, all three should be used in the valuation process. The benefit of the income approach over a market-adjusted cost approach is that it gives weight to obsolescence, depreciation, entrepreneurial profit, vacancy, and extraordinary cost. It also factors the effective property tax rate into the capitalization rate of the net operating income of the property. Committee discussion explored whether multiple valuation methods should be available to assessors without restriction.

### IV. Impact Fees

**Home Builders.** Ms. Flora Schmidt and Mr. Ted Grob testified on behalf of the Home Builders Association of Iowa. Ms. Schmidt provided data on the beneficial effects to the overall economy of a strong housing market, including increased jobs and wages in the community, purchase of materials within the community, and an increase in the property tax base, the sales tax base, and the income tax base. Ms. Schmidt stated that regulatory fees and impact fees are passed on directly to the homeowner, and a home price increase of just \$5,000 would cause over 23,300 Iowans to be priced out of buying a home at the median Iowa value of \$95,901.

Ms. Schmidt noted that she was not advocating changes to the property tax system, but instead commenting on potential changes, such as increasing impact fees. Ms. Schmidt acknowledged that the housing industry is going through a difficult period, and adding impact fees will slow a recovery within the industry. Mr. Grob noted that there is a correlation between high impact fees and high housing prices in other states. Mr. Grob stated that allowing more impact fees to be charged in Iowa will set in motion a very large tax increase in Iowa and will impede growth.

**Realtors.** Mr. Patrick Murphy, representing the Iowa Association of Realtors, echoed the comments of Ms. Schmidt and Mr. Grob, stating that houses under \$250,000 are selling robustly in the Des Moines metro area and increased impact fees will take affordable housing out of the picture for many people. Mr. Murphy stated that, rather than focusing on ways to increase local government revenue, it is time for the state to take a look at government expenditures and consolidation of services between local governments.



In response to an inquiry by the members, Mr. Grob provided some brief examples of other states' use of impact fees and the results those fees have created. Members of the Committee also discussed what value of property is required to cover the cost of services provided to that property. Mr. Grob explained that when examining whether a property covers the cost of its services received, the incidental benefits created by the residents must also be examined.

### **V. Iowa State Association of Counties (ISAC) — Legislative Priorities and Recommendations**

Mr. Jay Syverson, Fiscal Analyst, and Ms. Linda Hinton, Government Relations Manager, presented to the Committee on ISAC's legislative priorities related to property tax. ISAC's priorities include changes to the laws on tax increment financing (urban renewal) and tax abatement (urban revitalization), mental health funding, assessment of agricultural buildings, condominiums, and certain cablevision property, flood and erosion control levies, manufactured home taxes, and authorizing a local option income tax.

ISAC believes the overall effect of enactment of these priorities would be to stabilize the tax base, improve the fairness of the tax base, increase accountability for local governments, and impose a reasonable limit on local property taxes. Statutory responsibilities of counties, including paying certain mental health costs, are becoming expensive for many counties, particularly because costs are exceeding the rate of inflation. Ms. Hinton explained that these mandated services are placing economic pressure on counties.

Committee members discussed the current tax increment financing structure and how adjustments might be made to make it a more effective and efficient tool for local governments, including the duration of tax increment financing districts. Specific information was provided by Mr. Dickinson on how Dubuque County utilizes tax increment financing. Committee members cautioned against the adoption of certain proposals because the effects would be detrimental to certain communities. Committee members requested ISAC to provide additional information on some of the concerns raised, including the alleged inappropriate or excessive use of tax increment financing and the duration of districts in excess of 20 years.

### **VI. Association of Business and Industry (ABI)**

Mr. William Brown, Treasurer, ABI Board of Directors, stated that ABI members and the business community at large understand and appreciate the necessity of property tax collection to pay for municipal services and for education of Iowa's children. However, the growth in property taxes — \$1 billion over the last decade — is of great concern to the business community because it hinders economic and population growth.

The ABI recommends eliminating and/or merging political subdivisions and programs, eliminating the shift in tax burden between classes of property, requiring local governments to fund property-related services first, requiring city councils and boards of supervisors, when raising taxes, to vote separately from the vote on the budget, abolishing the county compensation board and requiring the board of supervisors to set elected officials' salaries, and enacting a spending limitation for all political subdivisions.



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Committee discussion included comments on the perception and opinions of the business community about the current level and equity of property taxes. Committee members also questioned whether the increase in commercial property taxes collected over the past decade can be completely attributed to the residential rollback or whether individual property values contributed to the increase as well.

### **VII. Taxation of Telecommunications Industry**

Mr. Brian Pappaducas, Manager of Tax and Financial Analysis for Iowa Telecom; Mr. Andy Randol, General Manager of Panora Communications Cooperative and Board President of Rural Iowa Independent Telephone Association; and Ms. Kristin Kunert, Director of Government Relations, Iowa Telecommunications Association, testified about the lack of equity and fairness in property taxation of communications providers in Iowa. Mr. Randol described the unique characteristics of the Iowa telecommunications industry, including the diverse size of providers within the state.

Mr. Pappaducas noted the disparity of property tax burdens within the communications industry, with wireless services paying \$3.50 per cell phone per year, cable TV services paying \$12.42 per subscriber per year, and telephone companies paying \$40.32 per phone line per year. Due to this outmoded method of assessing property of telecommunications companies, some companies are assessed at approximately 350 percent of their market value.

Ms. Kunert noted that the central assessment methodology utilized by the state has resulted in telecommunications providers carrying a higher property tax burden than ever. It is estimated that the effective tax rate for telecommunications providers is 10.5 percent. Consequently, 150 companies are responsible for 2 percent of the statewide property tax burden. To alleviate this inequity, the telecommunications providers recommended that the property of telecommunications providers in Iowa be assessed and taxed the same as all other commercial property. It was estimated that this assessment approach might cost \$45-50 million.

### **VIII. Committee Discussion**

The Committee discussed the Legislative Services Agency's financial estimates presented during the meeting and inquired as to the assumptions used in making those calculations. Members noted that a thorough understanding of the assumptions used in the calculations is important. Additionally, Committee members expressed a need to engage local governments regarding the projected expenses included in any projections or calculations. The Committee instructed Mr. Jeff Robinson of the Legislative Services Agency to meet with ISAC, League of Cities, Department of Management, Iowa Association of School Boards, and other interest groups to reach a consensus on appropriate and relevant assumptions.

**Request for Proposals (RFP).** The Committee created a request for proposals (RFP) subcommittee comprised of the legislative members of the Committee and directed staff to begin preparation of an RFP from consultants. The subcommittee is to consider the scope of services to be provided, evaluate the proposals received, and establish a timeline for completion of a selected proposal.



The Committee discussed and adopted a "Scope of Services" to be included in the RFP for a property tax study. The "Scope of Services" list includes the following:

1. Identify and review changes to the Iowa property tax system which would decrease the tax burden currently borne by commercial property without resulting in a major or direct shift in tax burden to other classes of property, and identify the fiscal impact, if any, of such changes on state and local governments.
2. Identify and review changes to the Iowa property tax system which would decrease the tax burden currently borne by commercial property and identify the fiscal impact of such changes on other classes of property.
3. Identify and review methods used by other states to make the burden of commercial property taxation comparable to the property tax burden of residential property, including but not limited to the following:
  - a. State-funded or local government-funded tax credits for commercial property.
  - b. Statutory limitations on the percentage of market/assessed value that is subject to tax, including statutory provisions that specifically state the percentage of market/assessed value that is subject to tax.
4. Identify and review methods used by other states to value agricultural, residential, commercial, and industrial property for purposes of property taxation. Identify those states that require an income or productive earning capacity approach as the primary method of valuing all, or a specifically identified subset of, commercial or industrial property, or both, for purposes of property taxation.
5. Identify and review methods used by other states to value telecommunications property for purposes of property taxation. Compare these methods with the method employed in Iowa. The cost of providing the information requested in this component of the Scope of Services shall be indicated as a separate amount on the bid proposal.
6. Identify and review successful efforts by other states to alleviate the property tax burden through a mix of providing state support to local governments and authorizing user fees and other alternative sources of local government revenue. Evaluate possible utilization of such efforts in Iowa in light of Iowa's state and local fiscal capacity.
7. Identify and review alternative sources of local government revenue utilized by other states and the incidence and burden of each alternative source of revenue on the following:
  - a. Persons who own residential property.
  - b. Persons or entities who own property that is exempt from property taxation because the property is used for religious, educational, or charitable purposes.
  - c. Persons who do not own their residence.
  - d. Commercial and industrial businesspersons.



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- e. Persons engaged in agricultural, horticultural, or livestock production.
- 8. Identify the major areas or categories of local government expenditure in other states and the composition of local government revenue sources in those states. Indicate the portion of local government expenditures made in Iowa and in other states that is used or devoted to providing services to real property within the local government's jurisdiction.
- 9. Identify and provide a description of other states' statutes that use property taxes to provide incentives for smart growth and in-fill development or that provide disincentives for open-field or green space development. Evaluate the effectiveness of these statutes.
- 10. Examine specific changes to the property tax law and to local government laws, as submitted by the Study Committee, and determine the potential impact of the changes.
- 11. For each element identified, reviewed, and evaluated, the review and evaluation shall include but is not limited to potential impacts, fiscal and otherwise, on taxpayers, classes of property, state government, and local governments; options for phasing in statutory changes; advantages and disadvantages for taxpayers, state government, and local governments; analysis of short-term and long-term effects; and analysis of administrative burden. In determining fiscal impacts, the consultant shall utilize Iowa data.

### **IX. Materials Filed With the Legislative Services Agency**

The following materials listed were distributed at or in connection with the meeting and are filed with the Legislative Services Agency. The materials may be accessed from the <Additional Information> link on the Committee's Internet web page:

<http://www.legis.state.ia.us/aspx/Committees/Committee.aspx?id=209>

- 1. Final Agenda
- 2. Draft Minutes — November 7 Meeting
- 3. Iowa Sales and Use Tax Law — Department of Revenue
- 4. Sales and Use Tax Exemptions — Department of Revenue
- 5. Taxable and Exempt Services By Category — Department of Revenue
- 6. Sales and Use Tax Exemptions Expenditures — Department of Revenue
- 7. Assessment of Agricultural Property — Iowa Farm Bureau Federation
- 8. Property Assessment Issues — William Greazel, Johnson County Assessor





9. Iowa Housing Market Data and Impact Fees — Home Builders Association of Iowa
10. Legislative Proposals Related to Property Taxes — Iowa State Association of Counties
11. Iowa Association of Business and Industry — Testimony of William Brown
12. Iowa Telecommunications Association — Property Taxation of Communication Providers
13. FY 2007-2008 Property Taxes By County — Iowa State Association of Counties
14. FY 2005-2006 County Local Option Sales Tax Revenues — Iowa State Association of Counties

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